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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
AUGUST 9, 1977

1. ECONOMIC ASPECTS OF THE ASEAN SUMMIT (CONFIDENTIAL)

AS TO BE EXPECTED, THE ASEAN HEADS OF GOVERNMENTS HAVE
ENDORSED THE ECONOMIC MINISTERS' REPORT AS OUTLINED IN
LAST WEEK'S WEEKLY NOTES. THIS WAS A STOCK-TAKING OF
ACTIVITIES AND ACCOMPLISHMENTS SINCE THE BALI SUMMIT.
THE SUMMITEERS DIRECTED THE ASEAN ECONOMIC MACHINERY TO
INTENSIFY EFFORTS TO ATTAIN THE GOALS AND OBJECTIVES LAID
DOWN IN BALI BUT NO SIGNIFICANT NEW DEPARTURES SEEM TO
HAVE EMERGED. INDICATIONS ARE THAT THERE WAS SOME BACK-
ROOM SQUABBLING ABOUT THE PACE OF PROGRESS. THE UNCTAD
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INTEGRATED COMMODITY PROGRAM AND THE ESTABLISHMENT OF A
COMMON FUND RECEIVED THE ANTICIPATED RINGING ENDORSEMENT.

FROM OUR POINT OF VIEW TWO DETAILS MERIT ATTENTION. THE
SUMMIT URGED THAT THE INTRA-ASEAN TRADE PREFERENCES ON
71 ITEMS BE IMPLEMENTED NOT LATER THAN JANUARY 1, 1978.
ASEAN MEMBERS ARE AWARE OF A GATT WAIVER REQUIREMENT AND

WE CAN EXPECT EARLY NOTIFICATION TO THE GATT. THE OTHER POINT OF INTEREST IS A GENERALIZED APPEAL TO ALL DEVELOPED COUNTRIES QUOTE TO EXTEND TO ASEAN AN ARRANGEMENT FOR THE STABILIZATION OF EXPORT EARNINGS DERIVED FROM ASEAN COMMODITY EXPORTS UNQUOTE.

2. JAPAN-ASEAN (L-O-U)

PRELIMINARY INFORMATION ON PRIME MINISTER FUKUDA'S PARTICIPATION AT THE SUMMIT INDICATES THAT HE GAVE A VERY CONDITIONAL COMMITMENT OF JAPANESE ASSISTANCE TO THE FIVE ASEAN INDUSTRIAL PROJECTS. ON THE ISSUE OF A STABEX AGREEMENT, FUKUDA EXPRESSED GOJ'S SYMPATHY AND AGREED TO CONDUCT A JOINT EXAMINATION OF THE VARIOUS PROBLEMS PERTAINING TO SUCH AN AGREEMENT.

3. U.S.-ASEAN ECONOMIC CONSULTATIONS (L-O-U)

ASEAN WILL HAVE TWO PREPARATORY MEETINGS PRIOR TO THE U.S.-ASEAN TALKS, ON AUGUST 26-28 AND SEPTEMBER 5-6. THIS WILL HARDLY ALLOW ANY FEEDBACK FROM ASEAN ON OUR PROPOSALS UNDER THE VARIOUS AGENDA HEADINGS BEFORE THE MEETING. A SPECIAL MEETING OF ASEAN TAX OFFICIALS IS BEING CALLED AT SINGAPORE INITIATIVE IN MANILA ON AUGUST 18-19 TO DISCUSS U.S. TAX REFORM AND TAX DEFERRAL AND ARRIVE AT AN ASEAN POSITION FOR THE U.S.-ASEAN TALKS. CONFIDENTIAL

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IN ADDITION TO A GENERAL CALL TO DEVELOPED COUNTRIES TO ENTER INTO STABEX ARRANGEMENTS WITH ASEAN CONTAINED IN THE SUMMIT COMMUNIQUE, THE MALAYSIAN MINISTER OF TRADE AND INDUSTRY WAS QUOTED AS SAYING THAT ASEAN EXPECTS TO PROPOSE A STABEX AGREEMENT TO THE U.S.

EMBASSY KUALA LUMPUR CALLED OUR ATTENTION TO REFERENCES IN THE SUMMIT COMMUNIQUE AND IN PRIME MINISTER THANIN'S SPEECH TO THE PROBLEMS OF NARCOTICS AND INDOCHINA REFUGEES AND SUGGESTS THAT WE MAY RAISE THESE TWO ISSUES AT THE ASEAN TALKS. EMBASSY MANILA SEES MERIT TO RAISE THESE ISSUES AT SOME FUTURE POINT BUT NOT AT THE SEPTEMBER CONFERENCE. EP AND TIMBS IS GIVING THE MATTER FURTHER CONSIDERATION BUT WE ARE INCLINED TO AGREE WITH MANILA ESPECIALLY SO AS NOT TO OVERBURDEN THE ASEAN COORDINATING MACHINERY WITH NEW TOPICS AT THIS LATE DATE.

WE HAVE SUGGESTED THAT THE U.S. DELEGATION MEET WITH THE ECONOMIC COUNSELORS FROM OUR ASEAN EMBASSIES AND WITH OFFICERS OF APCAC PRIOR TO THE U.S. ASEAN TALKS

ON SEPTEMBER 6. BOTH GROUPS HAVE URGED SUCH CONSULTATIONS FOR SOME TIME. NOW WE ARE CONCERNED THAT NONE OF THE PRINCIPALS WILL ARRIVE IN MANILA IN TIME.

4. FOREIGN ASSISTANCE LEGISLATION (L-O-U)

THE SENATE PASSED THE FOREIGN ASSISTANCE APPROPRIATIONS BILL BEFORE ADJOURNMENT AUGUST 5. FLOOR ATTEMPTS TO REIMPOSE A DOLE-TYPE AMENDMENT, REGARDING LOANS TO VIETNAM, ETC., AND A FIVE PERCENT ACROSS-THE-BOARD CUT WERE DEFEATED. HOWEVER, THE SENATE CUT FUNDS FOR IDA BY DOLLARS 150 MILLION AND FOR THE ADB BY DOLLARS 30 MILLION (FROM 263 MILLION, THE ADMINISTRATION REQUEST, TO 233 MILLION). THE BILL GOES TO CONFERENCE AFTER THE
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RECESS, WITH THE YOUNG AMENDMENT (DIRECT, INDIRECT AID TO VIETNAM), THE PALM OIL AMENDMENT, AND DIFFERENCES IN FUNDING LEVELS, INCLUDING AN ACROSS-THE-BOARD FIVE PERCENT CUT IN THE HOUSE VERSION, AMONG THE DIFFICULT ISSUES.

THE IFI AUTHORIZATION BILL OUT OF CONFERENCE WAS PASSED BY THE SENATE, BUT HOUSE LEADERSHIP HELD UP ACTION IN THE HOPE OF CORRALLING MORE VOTES.

5. ASIAN DEVELOPMENT FUND (L-O-U)

ADB PRESIDENT YOSHIDA HAS REQUESTED A MEETING OCTOBER 25-26 ON THE SECOND REPLENISHMENT OF THE ASIAN DEVELOPMENT FUND (I.E. ADF III). HIS SPECIAL ADVISER, SIR JOHN CHADWICK, HAS ASKED THE U.S. TO MAKE EVERY EFFORT TO RAISE ITS SHARE TO A HIGHER LEVEL THAN THE 22 PERCENT OF THE FIRST REPLENISHMENT, NOW AWAITING FINAL CONGRESSIONAL ACTION. HE SUGGESTED 27 PERCENT. IT WOULD BE DIFFICULT TO COMPLY, HOWEVER, GIVEN CONGRESSIONAL VIEWS. BOTH THE SENATE AND HOUSE CUT ADB FUNDS FROM THE ADMINISTRATION REQUEST, AND THE IFI AUTHORIZATION BILL CONTAINS A GLOBAL CAP OF 25 PERCENT ON THE AGGREGATE U.S. CONTRIBUTION TO THE IFIS, (ACTUAL AMOUNTS AUTHORIZED COME TO 24.9 PERCENT).

6. HOUSE/SENATE CONFERENCE ON SUGAR (UNCLASSIFIED)

THE HOUSE/SENATE CONFERENCE COMMITTEE ON THE FARM BILL ADOPTED A DOMESTIC SUPPORT PRICE FOR SUGAR THAT WOULD GUARANTEE FARMERS ABOUT L3.5 CENTS PER POUND. THIS IS SOMEWHAT LOWER THAN THE LEVEL IN THE HOUSE BILL. THE CONFERENCE ALSO DECIDED TO GIVE THE SECRETARY OF
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AGRICULTURE THE RIGHT TO SUSPEND THESE SUPPORTS IF AN INTERNATIONAL SUGAR AGREEMENT SUCCEEDED IN RAISING THE U.S. PRICE TO AT LEAST 13.5 CENTS PER POUND. THE ADMINISTRATION AND THE CONFEREES AGREED DURING THE

CONFERENCE THAT U.S. IMPORT CONTROLS ON SUGAR WOULD PROBABLY BE NECESSARY. THE EXPECTATION OF THE CONFEREES WAS THAT THE ADMINISTRATION WOULD DECIDE TO IMPOSE TARIFFS BEYOND THE CURRENT 1.875 CENTS PER POUND TO RAISE THE PRICE OF IMPORTED SUGAR TO DOMESTIC SUPPORT LEVELS. HOWEVER, NO FINAL DECISION HAS BEEN MADE ON THIS POINT AND IT IS NOT YET CERTAIN THAT TARIFFS WILL BE IMPOSED.

7. TIN (L-O-U)

WE HAVE RECEIVED VARIOUS REPORTS THAT JAPAN PLANS TO CONTRIBUTE ABOUT DOLLARS 30 MILLION TO THE INTERNATIONAL TIN COUNCIL BUFFER STOCK. THE JAPANESE WILLINGNESS TO CONTRIBUTE TO THE BUFFER STOCK IS GENERALLY ATTRIBUTED TO THE U.S. ANNOUNCEMENT OF ITS INTENTION TO CONTRIBUTE TO THE BUFFER STOCK.

8. U.S.-EAST ASIA TRADE (UNCLASSIFIED)

DURING THE FIRST SIX MONTHS OF 1977, TWO-WAY TRADE BETWEEN THE U.S. AND EAST ASIA GREW BY 18 PERCENT OVER THE SAME PERIOD LAST YEAR, REACHING DOLLARS 29 BILLION. U.S.-EAST ASIA TRADE CONTINUED TO EXCEED IN VALUE THE TRADE BETWEEN THE U.S. AND THE EEC. ON THE DARKER SIDE, THE SIZE OF OUR DEFICIT WITH EA COUNTRIES EXPANDED TO DOLLARS 5.9 BILLION OR A 58 PERCENT INCREASE. IMPORTS FROM ALL EA COUNTRIES EXCEPT AUSTRALIA INCREASED WITH THE LARGEST GAINS FROM JAPAN (DOLLARS 1.5 BILLION) AND INDONESIA (DOLLARS 434 MILLION).

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9. JAPANESE EXPORT CREDITS (CONFIDENTIAL)

A U.S. DELEGATION MET FOR THREE DAYS WITH JAPANESE REPS IN AN EFFORT, LARGELY UNSUCCESSFUL, TO GAIN JAPANESE SUPPORT FOR A STRENGTHENED QUOTE GENTLEMEN'S AGREEMENT TO LIMIT COMPETITION IN THE AREA OF EXPORT

CREDITS. THE U.S. DELEGATION CONCLUDED THAT A FURTHER BILATERAL MEETING WITH THE GOJ WILL BE NECESSARY IN OCTOBER AND THAT CONTINUED EFFORTS BY SENIOR USG OFFICIALS WILL BE NEEDED TO BRING THE GOJ AROUND. ALTHOUGH GOJ REPS. STATED THAT JAPAN DID NOT PROVIDE A GENERAL LINE OF CREDIT TO THE USSR, BUT RATHER CREDITS RELATED TO SPECIFIC PROJECTS, EMBASSY MOSCOW SUBSEQUENTLY REPORTED THAT A NEW JAPANESE CREDIT AGREEMENT WITH THE SOVIET UNION MAY CONTAIN SECRET PROVISIONS GRANTING SOFTER TERMS THAN CALLED FOR BY THE GENTLEMEN'S AGREEMENT UNQUOTE.

10. INTERNATIONAL INDUSTRIALIZATION INSTITUTE (L-O-U)

AFTER CLOSE TO TWO YEARS OF EFFORT, AID HAS DECIDED TO DISCONTINUE ITS EFFORTS TO ESTABLISH AN INTERNATIONAL INDUSTRIALIZATION INSTITUTE.

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